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INFO RUCNCIS/CIS COLLECTIVE
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RUEKJCS/JOINT STAFF WASHDC
RUEHGV/USMISSION GENEVA 1379
RUEHVEN/USMISSION USOSCE 3426
RUCNDT/USMISSION USUN NEW YORK 2812
RUEHNO/USMISSION USNATO BRUSSELS BE
RUEHBS/USEU BRUSSELS
RUEHLMC/MILLENNIUM CHALLENGE CORP
RUMICEA/USCENTCOM INTEL CEN MACDILL AFB FL

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SUBJECT: KYRGYZSTAN STRIKES PAYDIRT WITH NEW MINE AGREEMENT

REF: 08 BISHKEK 1190

1. (U) Summary: The Kyrgyz government and Centerra Gold, the Canadian parent company of the Kumtor gold mine project, reached agreement April 24 on terms for Kumtor's future operations. The Kyrgyz Parliament, which previously threatened nationalization of the project during the protracted negotiations, quickly ratified the deal, which President Bakiyev subsequently signed. The new agreement purports to resolve all outstanding claims, expands the Kumtor concession, introduces a simplified tax regime, and grants the Kyrgyz government additional shares currently worth \$257.3 million. Centerra will also make an immediate \$22.4 million tax payment. End Summary.

2. (SBU) After nearly two years of negotiations, the Kyrgyz government and Centerra Gold reached a new agreement April 24 that governs Centerra Gold's Kumtor gold mine project. (Note: The deal also involves Cameco Corporation, which is the largest shareholder in Centerra. End Note.) The Kyrgyz Parliament, which previously entertained suggestions of nationalizing the Kumtor project, moved quickly to ratify the agreement April 30. Kyrgyz President Kurmanbek Bakiyev subsequently signed the agreement, effectively concluding a process that had long damaged Kyrgyzstan's reputation among potential international investors. Officials from the Canadian-run Kumtor project told Embassy May 13 that they were satisfied with the new agreement, and were moving forward with their operational plans.

Sifting through the Details

3. (SBU) The new agreement settles all outstanding claims, expands the Kumtor concession area, and establishes a new, simplified tax regime. Under the new tax regime, which is backdated to January 1, 2008, up to 18% of gross revenue can be taxed, but allowances for capital and exploration expenditures could decrease the rate to 14%. Virtually all other taxes and customs duties are eliminated. The Kyrgyz government is eligible to receive up to 43.5 million additional shares in Centerra, which have a current market value of \$257.3 million. Issuance of the shares to the Kyrgyz government is conditional, and Embassy has been advised that there is additional

language governing how and when the Kyrgyz government can liquidate their new shareholdings. (Comment: Under former President Akayev's government, Kyrgyz officials sold a large stake in Centerra. Officials in the current government have claimed that Kyrgyzstan unfairly lost out in that transaction. It is likely that the new conditions seek to avoid any future recriminations about share sales. End Comment.) The additional shares could boost Kyrgyzstan's ownership to roughly one-third of Centerra outstanding shares.

¶4. (SBU) The agreement also requires Centerra to pay the Kyrgyz government \$22.4 million for recalculated taxes, outstanding claims and advance tax assessments. Prime Minister Chudinov announced that the agreement may generate up to \$3.4 billion for Kyrgyzstan. Kumtor officials informed Embassy that they do not know how Chudinov calculated this figure, and Chudinov's explanation lacked detail.

Comment

¶5. (SBU) The rapid approval of this agreement in Parliament suggests that Parliament's previous delays and initiatives by Parliamentarians to protest the Kumtor project in the courts could have been tactics to pressure Centerra into making concessions during the negotiations. The \$22.4 million tax payment could be very influential, especially if received prior to the July 23 Presidential election in which incumbent President Bakiyev is seeking re-election. However, we will also need to watch developments relating to Prime Minister Chudinov's April 29 announcement about a criminal investigation into the previous Kumtor agreement.